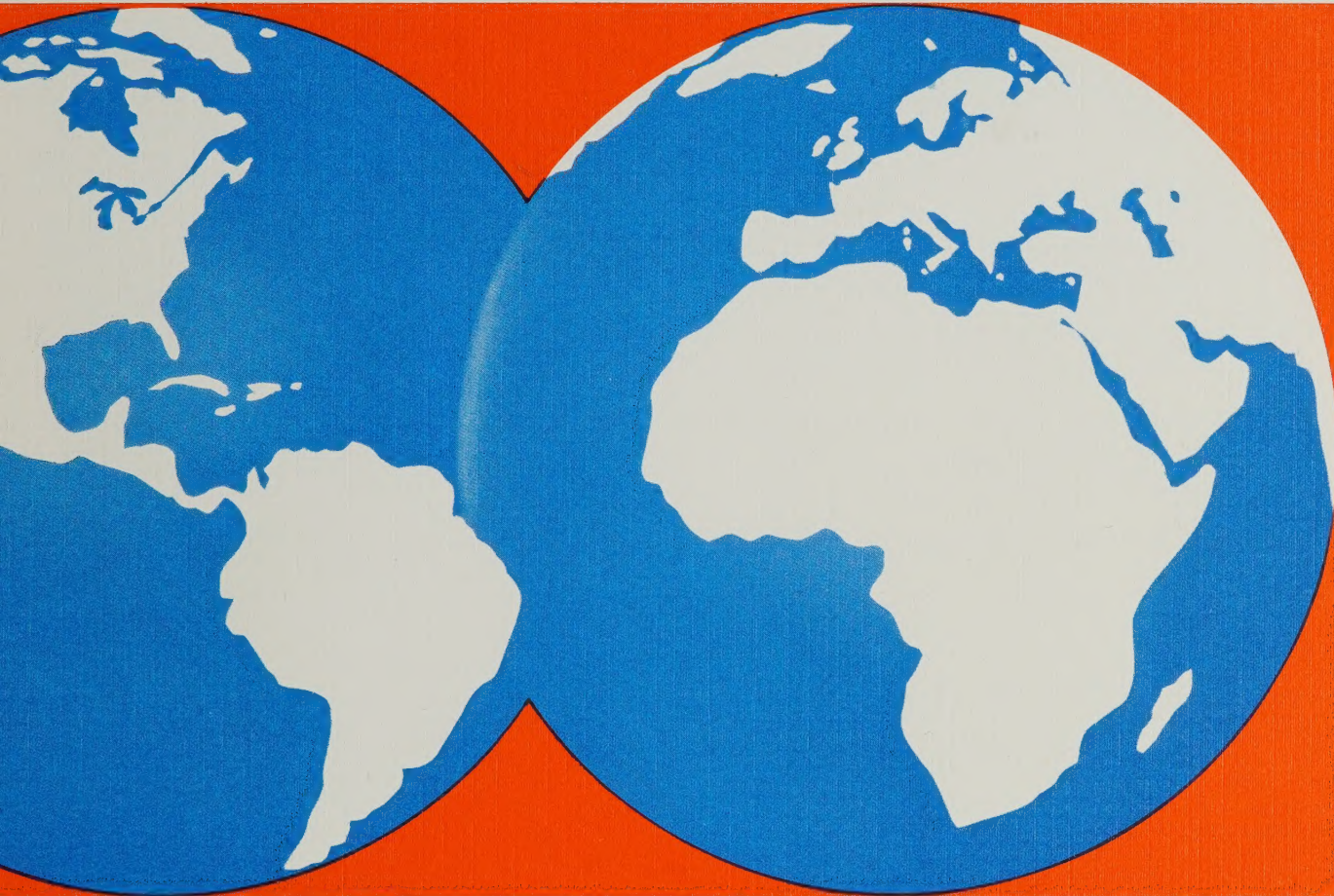


AR10

KeepRite

KEEPRITE PRODUCTS LIMITED



Around the world

with

***Air Conditioning, Refrigeration and
Industrial Heat Transfer Products***

1974 Annual Report

DIRECTORS

J. GORDON McMILLEN
Brantford, Ontario
IRVIN M. BODINE
Brantford, Ontario
JOHN G. EDISON, Q.C.
Toronto, Ontario
J. THOMAS McMILLEN
Brantford, Ontario

F. STEWART BROWN
Brantford, Ontario
JOHN J. BLACK
Brantford, Ontario
ROSS M. HANBURY
Toronto, Ontario
JOHN O. TREPANIER, Q.C.
Brantford, Ontario

OFFICERS

J. GORDON McMILLEN
Chairman of the Board and
Chief Executive Officer
IRVIN M. BODINE
Executive Vice President
Commercial Development

F. STEWART BROWN
President and
Chief Operating Officer
JOHN J. BLACK
Vice President and
Secretary-Treasurer
MRS. ETHEL L. MASON
Assistant Secretary-Treasurer

REGISTRAR AND TRANSFER AGENTS

THE CANADA TRUST COMPANY
Montreal, Toronto, Winnipeg, Calgary, Regina and Vancouver

SHARES LISTED

MONTREAL STOCK EXCHANGE
TORONTO STOCK EXCHANGE

AUDITORS

MILLARD, ROUSE AND ROSEBRUGH
Chartered Accountants
Brantford, Ontario

BANKER

CANADIAN IMPERIAL BANK OF COMMERCE

COMPANY PLANTS AND OFFICES

HEAD OFFICE
PLANTS

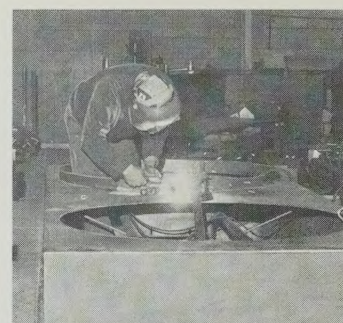
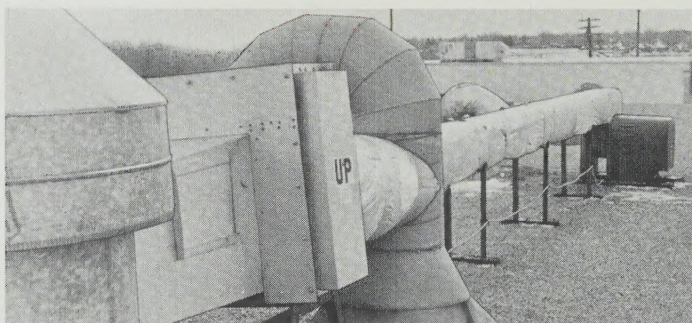
- 44 Elgin Street, Brantford, Ontario
- 44 Elgin Street, Brantford, Ontario
- 1030 Clarke Sideroad, London, Ontario

SALES OFFICES

- Halifax, Montreal, Ottawa, Toronto, Hamilton,
London, Winnipeg, Calgary, Vancouver

REPRESENTATIVES

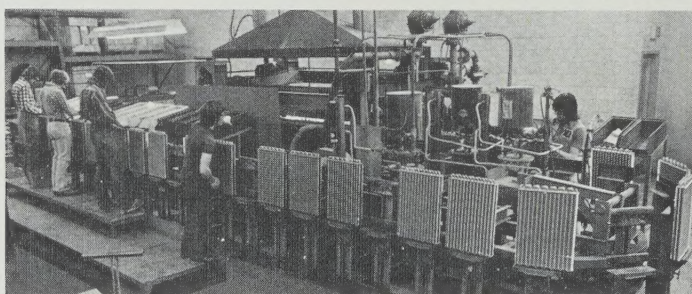
- Simsbury, Connecticut, U.S.A.
Stafford, U.K.



Above — A typical heavy duty industrial blast coil being manufactured at our Unifin Division in London, Ontario. These coils are for steam heating and drying in a pulp and paper mill and they stand pressures up to 400 pounds per square inch. Also above — Fabricating an air cooled heat exchanger at our Unifin Division.

Upper Left — Q-dot heat reclaim system installed as part of our powder paint baking oven in Brantford. With this system, KeepRite puts back into use about 60% of the heat which would otherwise have been lost to the atmosphere.

Lower Left — Welding in our Brantford plant is a clean, non-polluting operation and this modern set-up has increased our welding output per operator by three times. This machine can weld finned coils for room air conditioners at a rate of 350 per hour.





Financial Highlights

	Year Ended December 31	
	1974	1973
Sales	\$ 43,290,044.	\$ 31,546,463.
Net Earnings	\$ 2,272,193.	\$ 1,541,298.
Per Share	\$ 1.156	\$.784
Cash Dividends Paid	\$ 548,447.	\$ 520,572.
Number of Shareholders*	1,184	1,110
Number of people employed*	707	628
Salaries, Wages & Employee Benefits paid for our people	\$ 8,979,480.	\$ 7,111,700.
Value of Assets Employed*	\$ 24,505,639.	\$ 18,034,503.
Working Capital*	\$ 8,056,329.	\$ 6,588,738.
Long Term Debt*	\$ 1,750,000.	\$ 2,000,000.

* At Year End

Report of the Board of Directors

To Our Shareholders:

We are pleased to be able to report that 1974 continued the unbroken series of years of growth and progress. Financial statements for the year and other comparative information are contained in this Annual Report.

SALES AND INCOME

Sales of \$43,290,044. for the year 1974 were 37.2% greater than in 1973. Net income of \$2,272,193. represents an increase of 47.4% over net income in 1973. This is equivalent to \$1.15 per Class B and/or Class C share compared to 78c last year.

The unprecedented rate of inflation in 1974 had a marked effect on many aspects of our financial results. Approximately 50% of the sales dollar increase is the result of price inflation. However, cost savings resulting from the upgrading of manufacturing facilities and methods in recent years, plus positive action on cost control, and close liaison with our suppliers and customers enabled us to maintain satisfactory profit margins despite accelerated costs of money, materials, services, wages, salaries and benefits.

FINANCIAL POSITION

Inventories were higher at year end. In addition to the need to support a greater sales volume, inventory values reflect the high rate of inflation experienced throughout 1974. A further factor was the need to maintain larger inventories to assure uninterrupted production in a year when shortages and delayed delivery of materials was a continuous problem. Inventory turnover was unchanged from 1973 at 4.0 times 1974 sales.

Accounts Receivable were \$10,815,101, on December 31, 1974, reflecting higher sales volume and inflation.

Capital expenditures for fixed assets and tooling were \$625,472.

The financing of the real growth of your Company, combined with inflationary effects, required a significant increase in short term borrowing. Short term loans from our bank increased from \$3,429,000. at the end of 1973 to \$8,746,000. at December 31, 1974. This level of borrowing is amply secured by accounts receivable and inventory. Working capital increased by \$1,467,592. and the ratio of current assets to current liabilities was 1.6 to 1.

Report of the Board of Directors — cont'd.

Consistent with conservative practice, your Board has set aside from retained earnings a reserve of \$100,000. to reflect an anticipated decline in inventory value of copper.

Shareholders' equity or net worth of your Company increased by 24.3% (\$1,683,021.) over 1973 after dividends of \$548,447. (and income tax of \$40,725. on undistributed income) and the retirement of \$250,000. of the long-term debt.

OUTLOOK

As anticipated in our report a year ago, inflation continued unabated in 1974. The majority of raw materials and components that we require were in short supply or on allocation. This necessitated continual adjustment of manufacturing schedules, material deliveries and inventory levels, all of which affected our operations.

However, the demand for all of our products was strong throughout 1974. Major gains were made in offshore markets, particularly in the Middle East and Australia. Air conditioning and refrigeration markets were strong in Canada. Total industry sales of room air conditioners declined in the United States in 1974 but we were able to maintain our sales volume through increased market penetration.

Our Unifin Division which manufactures industrial heat transfer equipment is heavily oriented toward the energy producing industries and operated close to capacity throughout 1974. This Division looks forward to a reasonably good year in 1975.

We are apprehensive about the economic prospect in Canada, and indeed throughout the world in 1975. The many forces of inflation, economic recession, unemployment, instability of currencies, threats of war, and political uncertainty are a few of the many things which tend to obscure and jeopardize the future business scene. While we expect Canada to fare better than most nations, we think that our Country will continue to be plagued by inflation for some time to come.

KeepRite like most manufacturing companies, can expect its progress in the immediate future to be influenced by all these factors. Therefore, while we are starting 1975 in a strong position, we are watching developments in the business world closely and are endeavouring to keep our Company in a position to make quick and appropriate adjustments. For example, in our production of room air conditioners we operated on a two shift basis throughout 1974 and through the first five

months of 1975. We anticipate, however, that we will be cutting back to a one shift basis in June this year, as we did in years prior to 1974, until the new model year requirements are known.

While we will not maintain in 1975 the momentum of the past year, nevertheless, we view the long-term future of your Company with considerable optimism. The amount of installed air conditioning equipment in all parts of the world is still very low compared to potential which should assure a sustained growth in demand. Commercial and industrial refrigeration requirements continue to grow with population, and changes in food merchandising methods. The replacement of out-moded and inefficient equipment also promises to become an ever increasing portion of this market. The oil supply and fuel cost situation has given a new impetus to the economical generation of electric power and conservation of energy. Your Company, through its Unifin Division, is supplying equipment to meet the increasing demands of this industry.

We continue to carry on aggressive engineering and marketing development programs to broaden our sales potential with new products and new markets for established products. Our industrial engineering efforts are also directed toward improvements in our manufacturing facilities and cost control.

The excellent results of 1974 are a tribute to the combined efforts of the KeepRite "Team" of more than 700 people, who met the many operating challenges throughout the year. For this dedication and loyalty we are most thankful. We are also very grateful to our many loyal customers, our suppliers, and our shareholders for their confidence and support.

We at KeepRite are confident that we can meet the challenge of the future and continue to contribute to the welfare of our shareholders, our customers, our people, our industry, our community and our Country.

On behalf of the Board of Directors

J. GORDON McMILLEN,
Chairman of the Board and
Chief Executive Officer.

F. STEWART BROWN,
President and
Chief Operating Officer.

April 4, 1975.



Statement of Income

	Year ended December 31st	
	1974	1973
SALES	\$ 43,290,044.	\$ 31,546,463.
Cost of sales, selling, administrative and other expenses, exclusive of the items listed below	38,462,414.	28,268,292.
Depreciation	639,044.	416,151.
Interest on long term debt	257,456	212,142.
	<u>\$ 39,358,914.</u>	<u>\$ 28,896,585.</u>
Net income for the year before taxes on income	3,931,130.	2,649,878.
Taxes on income	1,658,937.	1,108,580.
NET INCOME FOR THE YEAR	<u>\$ 2,272,193.</u>	<u>\$ 1,541,298.</u>
Basic earnings per share — Class B and/or Class C	\$ 1.156	\$.784.

Statement of Retained Earnings

	Year ended December 31st	
	1974	1973
Balance — beginning of year	\$ 6,919,114.	\$ 5,931,388.
Add: Net income for the year	\$ 2,272,193.	1,541,298.
Deduct: Appropriation to reserve for anticipated decline in inventory values (Note 4)	<u>100,000.</u>	
	<u>2,172,193.</u>	
	<u>9,091,307.</u>	<u>7,472,686.</u>
Deduct:		
— Income tax paid on portion of 1971 undistributed income on hand to create tax paid surplus of \$230,775.	<u>40,725.</u>	<u>30,000.</u>
— Dividends declared		
• on Class C shares (from tax-paid surplus) (1974 — 25.5c per share; 1973 — 23.8c)	232,479.	167,705.
• on Class B shares (1974 — 30c per share; 1973 — 28c)	315,968.	352,867.
• on Common shares	—	—
Total Dividends	<u>548,447.</u>	<u>520,572.</u>
— Write off cost of several small investments not deemed significant as assets of the company	—	3,000.
Balance — end of year	<u>*\$ 8,502,135.</u>	<u>\$ 6,919,114.</u>

* 1974 balance includes \$591. tax-paid surplus (1973 — \$2,295.)



Balance Sheet as at

(with comparative figures for 1973)

Assets

	<u>1974</u>	<u>1973</u>
CURRENT ASSETS:		
Cash on hand and in bank	\$ 134,721.	\$ 272,847.
Accounts receivable after allowance for doubtful accounts	10,815,101.	7,257,532.
Inventories valued at lower of cost or market	10,823,011.	7,811,775.
Prepaid expenses	104,436.	50,408.
Total Current Assets	21,877,269.	15,392,562.
FIXED ASSETS:		
Land, buildings and equipment at cost	5,241,518.	4,924,182.
Less: Accumulated depreciation	2,613,148.	2,282,241.
	<u>2,628,370.</u>	<u>2,641,941.</u>
Signed on behalf of the Board:		
J. GORDON McMILLEN, Director		
F. STEWART BROWN, Director		
	<u>\$ 24,505,639.</u>	<u>\$ 18,034,503.</u>

Auditors' Report

To the Shareholders,
KeepRite Products Limited:

We have examined the balance sheet of KeepRite Products Limited, as at December 31, 1974, and the statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company, as at December 31, 1974, and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Brantford, Ontario
March 5, 1975

MILLARD, ROUSE AND ROSEBRUGH
Chartered Accountants

December 31, 1974

ures for 1973)

Liabilities

	<u>1974</u>	<u>1973</u>
CURRENT LIABILITIES:		
Bank loan (secured)	\$ 8,746,000.	\$ 3,429,000.
Accounts payable and accrued liabilities	3,591,983.	4,330,644.
Salaries, wages and commissions payable and payroll deductions to be remitted from employees' compensation	658,020.	503,671.
Income taxes payable	574,937.	290,509.
Current maturity on long term debt (Note 2)	250,000.	250,000.
Total Current Liabilities	<u>13,820,940.</u>	<u>8,803,824.</u>
DEFERRED INCOME TAXES (Note 1)	317,025.	296,026.
LONG TERM DEBT:		
Debenture secured loan (Note 2)	1,750,000.	2,000,000.

Shareholders' Equity

CAPITAL: (Note 3)		
Class B participating shares without par value Authorized: 2,500,000 shares Issued: 1,036,986 shares (at December 31, 1974)	8,201	8,321
Class C participating shares without par value Authorized: 2,500,000 shares Issued: 927,895 shares (at December 31, 1974)	7,338	7,218
Common shares without par value Authorized: 1,000 shares Issued: Nil	—	—
	<u>15,539</u>	<u>15,539</u>
RETAINED EARNINGS	8,502,135.	6,919,114.
RESERVE FOR ANTICIPATED DECLINE IN INVENTORY VALUES (Note 4)	100,000.	—
	<u>8,617,674.</u>	<u>6,934,653.</u>
	<u>\$ 24,505,639.</u>	<u>\$ 18,034,503.</u>



Notes to Financial Statements

NOTE 1: ACCOUNTING POLICIES

- (a) Inventories are valued at the lower of cost or market, with cost being determined substantially on a first in, first out basis.
- (b) Fixed assets are stated at acquisition costs. Depreciation is provided on a declining balance basis, generally using rates of 5% for buildings and 20% for machinery and other equipment. Expenditure for dies, moulds and other toolage is depreciated 100% in the year of acquisition and the value is not included in asset values.
- (c) All research and development costs, including costs of developing new products, changing existing products and pre-production costs, are expensed when incurred.
- (d) Deferred income taxes represent the accumulated amounts of tax deferred in current and prior years through claiming for tax purposes capital cost allowance in excess of depreciation recorded in the accounts.

NOTE 2: LONG TERM DEBT

The company entered into an agreement dated July 18, 1972, with a Canadian bank for a long term loan in the amount of \$2,500,000, bearing interest at the bank's minimum commercial lending rate, plus $1\frac{1}{4}\%$ per annum, amended to 1% in 1974 (December 31, 1974 — 12% and December 31, 1973 — $10\frac{3}{4}\%$). This loan is secured by a first mortgage on the fixed assets and a first floating charge on all other property and assets of the company and is repayable in equal annual instalments of \$250,000 on September 30 in each year until September 30, 1979, on which date the balance outstanding is payable in full.

NOTE 3: CAPITAL

The Class B shares and Class C shares are fully inter-convertible at the option of the holder at any time. The shares outstanding at the respective year ends are summarized in the table below.

	As at		As at	
	December 31, 1974		December 31, 1973	
	Shares	Amount	Shares	Amount
Class B shares	1,036,986	8,201	1,052,198	8,321
Class C shares	927,895	7,338	912,683	7,218
Common shares	Nil	Nil	Nil	Nil
	<u>1,964,881</u>	<u>15,539</u>	<u>1,964,881</u>	<u>15,539</u>

NOTE 4: RESERVE FOR ANTICIPATED DECLINE IN INVENTORY VALUES

Recognizing the uncertainties in the copper market, and the fact that supplier prices were reduced in early January and early February, the Board has set aside from retained earnings a reserve to reflect the anticipated decline in inventory values.

NOTE 5: DIRECTORS' AND OFFICERS' REMUNERATION

The aggregate direct remuneration paid or payable by the company to the directors and senior officers as defined by the Business Corporations Act was \$448,435. for 12 people for the year ending December 31, 1974.



Statement of Source and Application of Funds

	Year ended December 31st	
	1974	1973
SOURCE OF FUNDS:		
Net income from operations	\$ 2,272,193.	\$ 1,541,298.
Depreciation charged to operations	639,044.	416,151.
Total funds provided from operations	2,911,237.	1,957,449.
Increase in deferred income taxes	20,999.	188,370.
	<u>\$ 2,932,236.</u>	<u>\$ 2,145,819.</u>
APPLICATION OF FUNDS:		
Income tax paid on portion of 1971 undistributed income on hand	40,725.	30,000.
Dividends declared and paid	548,447.	520,572.
Fixed assets purchased	625,472.	525,925.
Decrease in long term debt	250,000.	250,000.
Increase in working capital	1,467,592.	819,322.
	<u>\$ 2,932,236.</u>	<u>\$ 2,145,819.</u>

Ten Year Summary of Financial Highlights

OPERATIONS: (In thousands of dollars)

	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965
Net Sales	\$43,290	\$31,546	\$26,866	\$22,798	\$22,444	\$18,855	\$15,198	\$11,688	\$9,690	\$9,128
Income before										
Income Taxes	3,931	2,650	2,750	2,262	1,755	1,639	1,260	913	627	609
Income Taxes	1,659	1,109	1,288	1,142	918	853	656	466	316	307
Net Income										
after Taxes	2,272	1,541	1,462	1,120	837	786	604	447	311	302

BALANCE SHEET: (In thousands of dollars)

Working Capital	8,056	6,589	5,769	3,821	3,256	3,334	2,891	2,514	1,206	1,072
Fixed Assets — net										
after depreciation	2,628	2,642	2,532	1,944	1,958	1,339	1,232	1,171	1,184	1,119
Yearly Depreciation										
Provided	639	416	479	365	362	336	259	179	169	216
Annual Investment										
Fixed Assets and										
Toolage	625	526	1,067	352	980	443	320	166	234	716
Shareholders' Equity	8,618	6,934	5,947	4,899	4,085	3,536	2,971	2,533	2,089	1,783

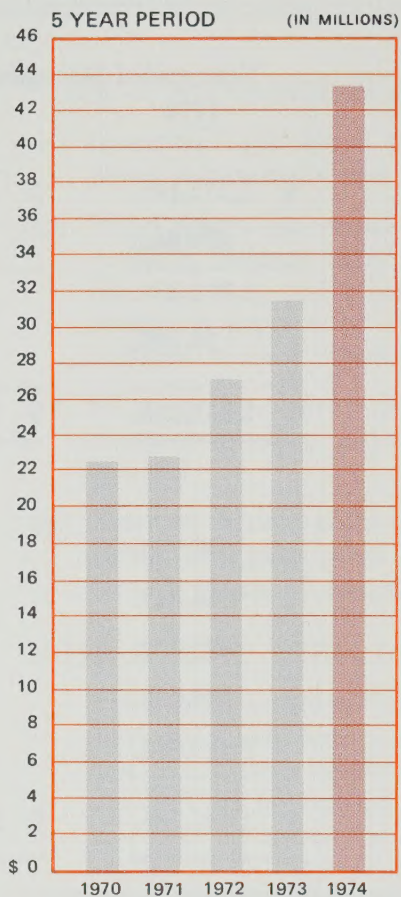
*EARNINGS PER SHARE

Class B and/or C	\$1.156	78.4c	74.4c	57.0c	42.6c	40.0c	30.8c	22.8c	15.8c	15.4c
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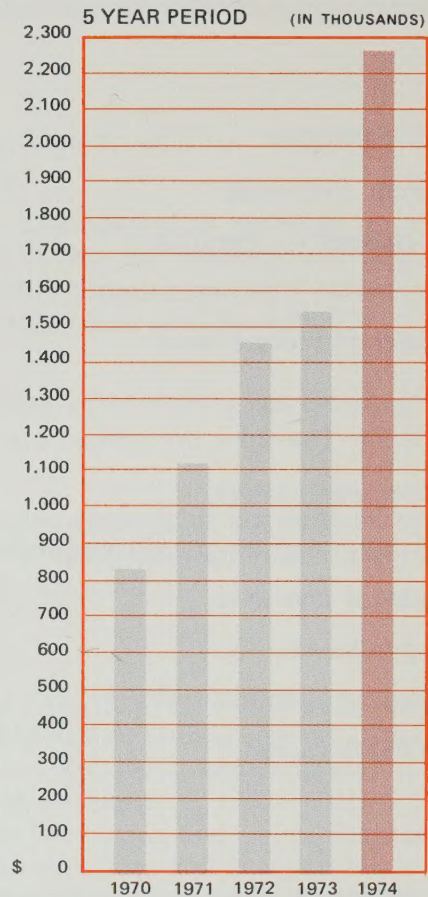
* Adjusted to reflect reclassification of share capital in 1967, the three for one subdivision of shares on May 1, 1969, and capital reorganization of August 23, 1972.



NET SALES

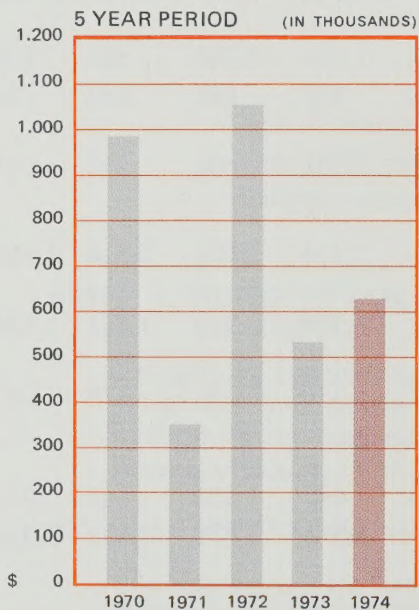


NET INCOME AFTER TAXES

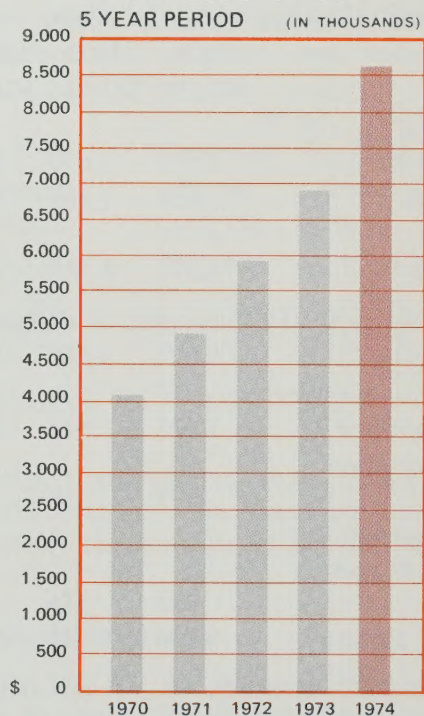


NEW INVESTMENT

In Fixed Assets & Toolage
— To help present and future growth



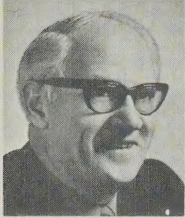
SHAREHOLDERS' EQUITY





... Some of the people who guide our operations.

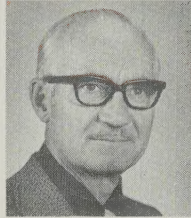
CORPORATE MANAGEMENT



J. GORDON McMILLEN
Chairman of the Board and Chief Executive Officer



F. STEWART BROWN
President and Chief Operating Officer



IRVIN M. BODINE
Executive Vice President Commercial Development



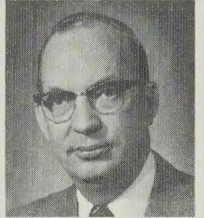
JOHN J. BLACK
Vice President and Secretary-Treasurer



MRS. ETHEL L. MASON
Assistant Secretary-Treasurer

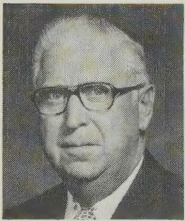


CLARENCE H. WALLACE
Corporate Controller

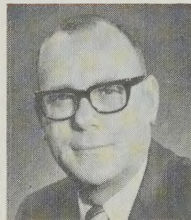


HAROLD D. BOWERMAN
Corporate Credit Manager

BRANTFORD DIVISION OPERATING MANAGEMENT



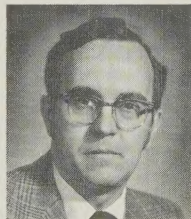
JOHN C. CLAWSIE
Vice President — Manufacturing



WILLIAM L. SCHROER
Engineering Manager



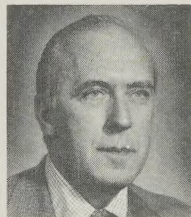
JULIEN J. HEROUX
Sales Manager — Commercial Products



FRANK ORESKOVICK
Chief Engineer — Commercial Products



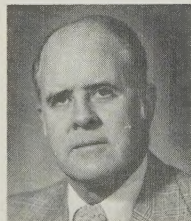
J. THOMAS McMILLEN
Sales Manager — Room Air Conditioners



ROY R. BENNETT
Manufacturing Manager



H. ROBERT MUSSON
Sales Manager — Export

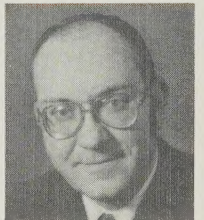


LORNE J. CLANCY
General Purchasing Agent

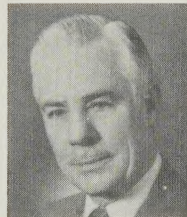
LONDON DIVISION (Unifin) OPERATING MANAGEMENT



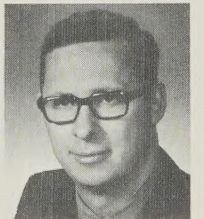
GERALD T. FENWICK
General Manager



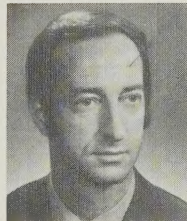
WILLIAM MCGILVRAY
Manufacturing Manager



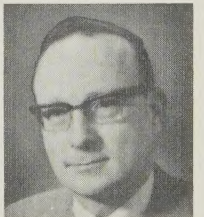
GEORGE E. LILL
Sales Manager



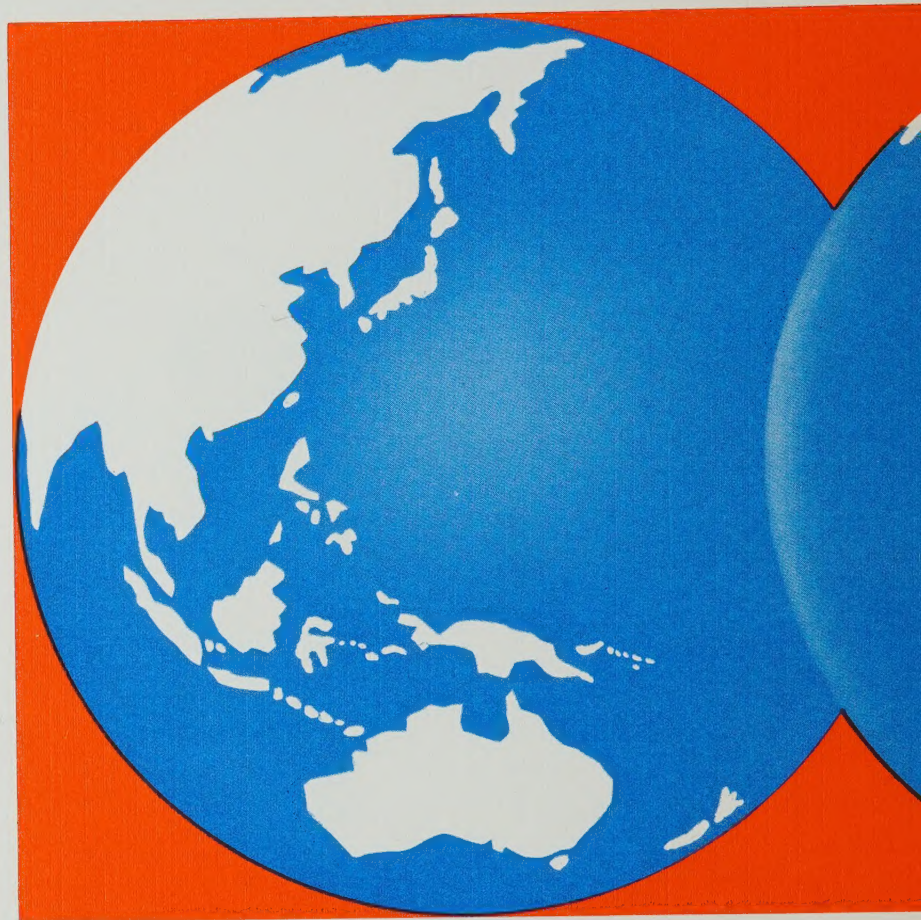
A. ROSS GEDGE
Accounting Manager



JAMES C. RICHARDSON
Engineering Manager



ARCHIBALD I. LAMB
Export Sales Manager



KEEPRITE PRODUCTS LIMITED

1974 Annual Report
